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The Conference Board
845 Third Avenue
New York, N.Y. 10022

Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

April, 1983

The Conference Board Survey of Financial Indicators

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Introductory Note: This is the fourteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

The fourteenth semiannual survey of Financial Indicators and Corporate Financing Plans took place during a period in which the recovery that was anticipated by the members of the forecasting panel in the October, 1982, survey appeared to be under way. There were still, however, major differences among professional economists as to the strength and durability of the recovery. Despite a continuation of what seemed to be unusually high "real" interest rates, the panel sees a sustainable recovery at least through 1984. Among the main conclusions of the 36 senior financial executives of leading U.S. nonfinancial corporations who participated in this survey:

- The U.S. economy will grow at an average rate of 2.4 percent in 1983 (or between 4 percent and 5 percent from the fourth quarter of 1982 to the fourth quarter of 1983), and at an average rate of 4.1 percent in 1984.
- Inflation will rise somewhat with the recovery, but will do so at rates well below those foreseen by the panel as recently as October, 1982.
- The five-year outlook for inflation is substantially lower than the actual average rate of inflation for the past decade.
- As profits revive in coming months, companies intend to rely heavily on internally generated funds that rose substantially as a percentage of total corporate funds during the past six-month period.
- Although it is expected to weaken against the German mark and the Japanese yen, the U.S. dollar will remain strong relative to other currencies; and no substantial change is anticipated in the dollar price of gold, which is often a barometer of confidence in the dollar and other currencies.

U.S. Financial Indicators

A number of experts have raised questions as to whether the sharp swing in inventories that is likely to occur in the first half of 1983, and the rapid rate of growth of money, will result in an unsustainably high rate of growth in the economy. The panel, however, does not see a sharp "snapback" in the velocity of money, and the panel's estimate of nominal GNP remains well below double-digit figures for the year 1983. No panel member foresees real growth of 6 percent annually for either 1983 or 1984, and only one panel member sees real growth reaching 4 percent for the year 1983 as a whole. Similarly, no panel member sees a recession in either year—the lowest forecast rate of growth for 1984 is 1.5 percent. (These estimates are broadly in line with the October 1982 survey findings).

With respect to the outlook for inflation in 1983 and 1984, no panel member sees it as a serious problem in either year. Only two executives sees the GNP deflator rising as fast as 7 percent annually, and then only in 1984. Since the last survey, the average rate of inflation for 1983 has been lowered from 6.1 percent to 4.4 percent, and for 1984 from 6.2 percent to 5.3 percent.

In line with this more optimistic outlook for inflation, expectations regarding both short-term and long-term interest rates have been lowered from last October. The Aaa rate is expected to average 10.9 percent in 1983 (as against a forecast of 12.2 percent as recently as October, 1982), and the prime rate will average 10.3 percent. A normal yield curve, with short-term rates below long-term interest rates, is expected for both 1983 and 1984.

Reassessing Inflation

The October, 1982, survey hinted that a fundamental reassessment of inflation seemed to be taking place and, indeed, this seems to have happened. Panel members have, for the second consecutive time, lowered their estimates of inflation by approximately 1 percent or more for the forecast period. Moreover, for the first time, survey participants provided their estimates of inflation for the next five-year period, and the results suggest that corporate expectations of inflation have indeed been lowered. According to the

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook: Average June '83 (2nd Q GNP)	Outlook: Average Sept. '83 (3rd Q GNP)	Outlook: Average 1983	Outlook: Average 1984
New Aaa industrial rate (%)	11.3	10.8	10.6	10.9	10.7
Prime rate (%)	11.0	10.2	10.0	10.3	10.2
Dow-Jones Average (Index)	1,064.0	1,111.0	1,143.0	1,125.0	1,208.0
Real GNP (%)	-2.5	2.5	3.7	2.4	4.1
GNP deflator (%)	4.3	4.3	4.5	4.4	5.3

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	79	11	3	12	1	7
External Funds	21	11	1	7	3	12
	100%					
(b) Composition of *External Funds*						
Net bond issues	30.8	10	3	7	0	5
Private placements	10.4	18	0	2	1	4
Net new equity	18.7	15	1	3	3	3
Bank term loans	8.1	20	1	2	0	2
Bank short-term loans	5.9	21	1	0	1	2
Commercial paper	14.1	16	1	2	0	6
Other	12.0	19	0	2	0	4
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1983:

	Latest Available 3/1/83	Expected Change (Number of Respondents): By June 30, 1983 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By September 30, 1983 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8148	18	6	1	6	0	16	8	1	6	0
British pound	1.51	8	9	0	11	3	10	9	3	5	3
German mark	.4103	4	19	8	0	0	3	12	15	1	1
Japanese yen	.0042	3	19	9	0	0	2	14	13	1	1
Gold	$414.00	6	8	4	5	7	4	7	5	7	6

31 executives who provided their estimates of inflation, the average rate for the coming five-year period will be 5.6 percent annually. This rate is not only substantially below the rate of 8.1 percent for the preceding five year period (1978-1982), but it is also well below the average annual rate of 7 percent for the period 1973 to 1977. Only one executive sees the rate below 4 percent (at 2.5 percent), while four see it averaging 7 percent or more (the highest being 8.2 percent).

The Panel's Five-Year Inflation Outlook

	Less than 4 percent	*4 percent but less than 5 percent*	*5 percent but less than 6 percent*	*6 percent but less than 7 percent*	*7 percent and above*
Number of Panel Members	1	5	15	6	4

Corporate Financing Plans—March 1, 1983 to February 29, 1984

After failing in three consecutive periods to "put their houses in order," companies in the survey were finally able to realize their plans to increase their reliance on internally generated funds. During the 12-month period from March 1, 1982, to February 28, 1983, internal funds averaged 79 percent of total corporate funds. This figure is well above the 75 percent average in the preceding 12-month period, and it is also more in line with the 80 percent average that existed during each year of the period 1975 to 1979. The relatively heavier reliance on internal funds is expected to continue in the coming 12-month period: Fifteen executives look for greater reliance on internal funds, while eight intend to place more reliance on external funds.

The external financing of companies in the survey was marked by a reduction in commercial paper and a greater reliance on equity, bank term loans, and long-term financing. A broadly similar external financing pattern is expected to continue in the coming 12-month period. Ten executives plan to place greater reliance on net bond financing, while six look for a reduction in their companies' reliance on commercial paper. In line with their expectations of relatively high stock prices, companies plan to continue to issue net new equity at rates only somewhat lower than in the past 12-month period.

The International Environment

After remaining surprisingly strong in the three preceding periods covered in the survey, the U.S. dollar finally weakened somewhat relative to the German mark and the Japanese yen. However, it remained strong relative to the British pound, the French franc, and other currencies.

The vast majority of financial executives whose companies engage in international operations look for both the mark and the yen to strengthen against the U.S. dollar over the next two quarters. Their views on the Canadian dollar and the British pound are mixed, although more executives see the pound depreciating than appreciating by June 30, while more see the Canadian dollar appreciating than depreciating.

The panel's views on the dollar price of gold are also "mixed" for both forecast periods. With the U.S. recovery apparently under way, the failure to look for a strong rise in the price of gold seems to underscore the panel's more optimistic outlook on inflation.

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Stein at (212) 759-0900.

The Conference Board, Inc.
845 Third Avenue, New York, N.Y. 10022
(212) 759-0900 Telex 234465 and 237282

The Conference Board of Canada
25 McArthur Road
Ottawa, Ontario, K1L-6R3, Canada
(613) 746-1261

The Conference Board, Inc.
Avenue Louise, 207 Bte 5
B-1050 Brussels, Belgium
(02)640 62 40 Telex 63635